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**REPORT  
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MONTANA  
TAXATION-EDUCATION  
COMMISSION  
to the  
GOVERNOR**

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**REPORT**  
**of the**  
**MONTANA**  
**TAXATION-EDUCATION COMMISSION**  
**to the**  
**GOVERNOR**

Members of the Commission

Senator D. M. Manning, Hysham, Chairman	Peter Fontana, Great Falls Les Hanson, Glasgow
C. R. Anderson, Helena, Secretary	William Johnstone, Bozeman Mike Lacey, Butte
Senator J. S. Brenner, Grant George Diehl, East Helena	Senator Charles Mahoney, Jordan Winton Weydemeyer, Fortine

Carlton A. Infanger  
Executive Secretary

November 28, 1958



# MONTANA TAXATION EDUCATION COMMISSION

ROOMS 326-27 - STATE CAPITOL BUILDING

HELENA, MONTANA

November 28, 1958

Honorable J. Hugo Aronson, Governor  
State of Montana  
Helena, Montana

Dear Governor Aronson:

The Montana Taxation-Education Commission is pleased to submit this report in compliance with Section 3 of Chapter 226, Laws of Montana 1957.

In developing this report every effort was made to encourage individuals and groups, interested and concerned with Montana's systems for taxation and education, to present the problems and programs for solution pertinent to their particular type of operation. A series of monthly two day meetings was held from June 1957 to October 1958 at which these groups could appear. The problems of all sections of Montana's economy were incorporated into our research.

These unanimous recommendations are founded upon research in the two fields covered by the professional staffs hired and the Commission's own time and effort in directing and evaluating this research in the past 19 months.

We sincerely hope you will make full use of these recommendations and that they will assist you in formulating your program for Legislative action.

Respectfully submitted,  
Montana Taxation-Education Commission  
D. M. Manning, Chairman

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## SUMMARY OF COMMISSION OPERATIONS

### Organization

The membership of the Commission was appointed by Governor Aronson according to the requirements of Section 2, Chapter 226, Laws of Montana 1957. The Governor appointed Senator Dave M. Manning and Les Hanson, Mike Lacey and Austin G. Thompson, George Diehl and Winton Weydemeyer, Senator J. S. Brenner and Senator Charles Mahoney, C. R. Anderson and William Johnstone to represent (1) business and industry, (2) organized labor, (3) farmers, (4) livestock industry, and (5) education, respectively. Upon the untimely death of Austin G. Thompson, Peter Fontana was appointed as replacement.

The organizational meeting of the Commission was held May 5, 1957. Senator D. M. Manning was elected chairman and C. R. Anderson was elected secretary. The Commission made provisions for hiring an executive secretary and holding monthly meetings or hearings at this time. The executive secretary was hired at the June 17, 1957 meeting and took over his duties of organizing and administering the Commission's research July 1, 1957.

The State Board of Examiners made Rooms 325, 326, and 327 available for the Commission's use. Office furniture was made available from the supply on hand for the Legislature. All office personnel were under the direct supervision and accounting of the Commission.

### Two Fields of Research

The instructions given in Section 1 of Chapter 226, Laws of Montana 1957 clearly indicated two fields of research: (1) taxation and (2) education. After compiling the problems they had gleaned from their early hearings the Commission deemed it wise to have two fields of research done by different groups. The areas of educational research deemed most pressing by the Commission were assigned to a group of four professional educators through an agreement with the Division of Surveys and Field Services of the George Peabody College for Teachers, Nashville, Tennessee. The Commission gratefully acknowledges that one-half (\$6,500) of this \$13,000 survey was paid for by the Legislative Council.



The taxation research was accomplished through the efforts of the Commission and its immediate staff. Copies of the detailed reports are available.

### **Statewide Meetings**

While all of the Commission's hearings were open to the public two important meetings were attended by statewide representation. The April 21, 1958 meeting was attended by the County Commissioners, County Land Classifiers and the State Board of Equalization. The main items of concern at this meeting were land classification and property valuation. This meeting seemed to achieve desirable results in better relations and understanding between and among the groups present.

The September 29, 1958 meeting, when the Peabody educational research report was presented to the Commission, was well attended by both professional and lay educational leaders of the state. The Peabody team did a masterful job of explaining the recommendations their research had led them to develop for simplifying, improving, and modernizing the elementary and secondary education systems in Montana.

### **Taxation Report**

The Commission utilized its monthly hearings, with the various groups and individuals throughout the State, as a means of determining what problems seemed to be most troublesome to these different groups and individuals and what solutions they might have to offer. No one was denied a request to appear and present problems or solutions. A list of those appearing is a matter of record in the Secretary's minutes. A total of approximately seventy (70) problems and questions on taxation were formulated. The time and efforts of the Commission's staff was directed toward finding objective information and data which would offer help in arriving at solutions. From this data and information the Commission has formulated the recommendations found herein for simplifying, improving, and modernizing the taxation system of the State of Montana.



**PART I**  
**RECOMMENDATIONS FOR IMPROVEMENT**  
**OF EDUCATION**

**SECTION I —**

***Recommendations Which Will Require No Legislation***

1. School systems should be encouraged to develop and improve their instructional leadership staffs.
2. Courses of study should be developed by the State Department of Public Instruction which will provide specific suggestions for teachers in schools of several sizes and types.
3. The State Superintendent of Public Instruction should continue to stimulate parents and educators to think about the problems of educating Montana's children and youth as was done in the series of curriculum conferences recently held.
4. Additional opportunities should be provided for academically talented and gifted children.
5. Many more learning experiences in elementary schools should be based upon firsthand rather than verbal experiences. Greater use of audio visual materials and media would also provide more permanent learning and increased understanding.
6. If teachers of special subject areas (such as music, art, and physical education) are employed to teach in elementary schools, they should be assigned duties as teacher educators, as resource persons to be called upon for special assistance when needed, and as teachers of those few children who are deemed to be truly talented in the particular area.
7. Thoughtful study should be given at both state and local levels to the means of providing more offerings and improved instruction in the area of modern foreign languages.
8. Although vocational shop opportunities are good in the few centers in which they are provided, offerings of the industrial arts

type, using a variety of media, should be provided in many schools where such opportunities are now lacking. The extensive provisions made for business education in so many high schools represent a strength; emphasis should also be placed upon acquiring typing skills for personal use. Schools should continue to move toward universal provision of home economics, and selective provisions for agriculture, based on the need of the area served.

9. Services provided by school nurses and county health physicians need to be expanded in most counties. This involves services to pupils and physical examinations of food handlers, custodians, and other school personnel.
10. Teachers, principals and parents throughout the State should be encouraged to stimulate children to develop satisfying and wholesome ways of using their leisure time.
11. The number and nature of state graduation requirements is satisfactory, but state authorities should continue to resist demands made by some for them to dictate the exact courses which should be used to meet these requirements.
12. The excellent music program should be continued with increased emphasis upon general music for nonperformers; the offerings in art need to be extended and vitalized.
13. The general provisions for extraclass activities are good, but greater emphasis should be placed on intramural participation for many; and the extent to which participating in and following extra curricular activities now interferes with other important school work—both academic and extraclass—should be curbed.
14. The present trend toward providing improved housing for high school libraries, employing qualified librarians, increasing amounts for books and other materials should be continued and extended.
15. The State Department of Public Instruction should provide information and guidance to school systems on the problem of grouping children for instruction.

16. Appropriations which support the work of the Board of Education, the Superintendent of Public Instruction, and her staff should permit budget flexibility within the total appropriation.
17. The State should maintain a salary level in the Department of Public Instruction which would be comparable to those in the largest local school systems in the State.
18. Due to the increased numbers of standardized tests now available, the lack of well thought out programs of standardized testing, and the added importance of school counselling, the State Superintendent of Public Instruction shall plan and provide services to local school districts on standards and procedures to be used in student testing.
19. The reason that some high schools of modest size are successful in providing variety and depth in their offerings is because they are making extensive use of the alternation of subjects. More schools should utilize this choice more fully.
20. The State Board of Education should set standards on the length of school day, the days to be taught in the school year, and what constitutes a day taught; days when instruction of students is not taking place should not count as days taught.
21. An investigation should be made by the State Department of Public Instruction on the matter of school-owned vs. contract buses.

## **SECTION II —**

### ***Recommendations Requiring Immediate Legislation***

- A. Organization and Administration for Grades 1-12.
1. The Legislative Assembly should legalize only one kind of school district to provide all public school services in a given area. Provisions should be included for future changes in district boundary lines, new districts or abandonment of districts.
  2. The State should require all school districts to operate schools from Grade 1 through Grade 12.
  3. A single school board should be made responsible for all school operations in the reorganized district.
  4. Boards of trustees should consist of seven lay citizens elected by popular vote for overlapping terms of three years. Nominations may be arranged easily by petition, and representation can be devised for zones in the district.
  5. The remaining members of a board should fill all vacancies as they occur, making interim appointments until the next election.
  6. The powers and duties of the board of trustees should be much the same as those now divided between high school and common school district boards.
  7. Boundaries of the reorganized school districts should be required to conform to some established geographical, governmental, or sociological subdivision of the State.
  8. Montana, because of its size and sparsity of population, will continue to have many small schools; however, the state should revise its definition of desirable minimum sizes for schools, and should then evaluate all schools below the minimum on the basis of isolation.
  9. The legislature shall establish the authority for the preparation of criteria for defensible school attendance areas, protect-

ing the truly isolated schools, and for the organization of a local school study commission in every county.

10. Procedures should be established which will not only make possible but also insure operation of only those high schools which are defensible from both an economic and educational viewpoint in serving the needs of the youth involved.

#### B. Finance

1. Each school district shall have two basic budgets—a general fund budget and a debt service budget. Separate funds will have to be established within these basic budgets in those districts where money has been raised for building purposes, where lunch programs are operated, and where Federal funds are received for specific purposes.
2. As elementary and secondary schools are unified under one board of education, they should be financed from the same funds under a unified budget.
3. When school districts are consolidated, the assets and liabilities of the former districts should be assumed by the newly formed and consolidated district with the liabilities serviced from a uniform tax levy upon all taxable property in the newly formed district.
4. The public school foundation program should be financed from a state contribution and a county-wide tax.
5. The foundation program representing the minimum public school need of a district should be computed by combining a pupil allotment and a pupil transportation allotment, according to schedules set up by law.
6. After the total state-wide cost of public school foundation program has been determined and the amount of state funds available is known, the State Superintendent of Public Instruction shall notify the county commissioners of the revenue needed to provide the remainder of the cost of the program as designated by law for each county.



7. The amount of state school equalization funds paid to each county should be equal to the computed cost of the foundation program for that county minus: (1) revenues available to that county from the Interest and Income Fund, and (2) yield of the county school tax levy described in the above recommendation.
8. Where more than one school district exists in a county, foundation program funds should be apportioned among them so that each district will have sufficient funds to finance its foundation program.
9. Authority for school districts to levy "permissive" and "voted" levies in excess of the required school foundation program tax should be continued.
10. The system for classifying public school receipts and expenditures in Montana should be revised to conform with the latest recommendations of the U. S. Office of Education.
11. Responsibility for enforcing the law requiring audits of local school fiscal affairs should be placed in the State Examiners Office.
12. This proposed finance program, as well as the one currently in use, is predicated on a uniform classification of property among all counties in the state. Under legislation passed in 1957, steps to secure this uniform classification are being undertaken in each county. When this is completed, and such reclassified property has been assessed at "full cash value," there will be equity in all school districts in the matter of state equalization aid to local schools.

#### C. Miscellaneous Items

1. Present laws specifying the program to be offered in Montana's schools should be combined into a new act which centralizes authority and responsibility for curriculum planning and development of courses of study in the office of the State

Board of Education through the State Department of Public Instruction.

2. The general school code should be culled of special, obsolete, and conflicting legislation so that the school law would apply uniformly throughout the State.
3. A re-evaluation should be made as soon as possible of the transportation schedules now in effect, with a view to bringing them more in line with present costs.
4. Tuition for elementary and secondary pupils should be raised to come more in line with actual costs to the receiving district for educating such children.
5. Certification—The present cumbersome and mixed-up laws on certification of teachers should be changed to provide for more simplicity and efficiency in certifying teachers, and to provide stimulus for the upgrading of training of elementary teachers.

D. State Department of Public Instruction

1. The State Superintendent of Public Instruction should re-organize the department to improve both the coordination between divisions and the effectiveness of the staff. We suggest a *division of curriculum* be established to include all personnel whose primary duties are concerned with curriculum and teaching programs; a *division of administration* to include all personnel whose primary duties are concerned with management, statistics, publications, business affairs, regulations, information, personnel, department accounting, etc.; and a *third division* to include research, finance, legal, transportation, school lunch, Indian education, certification, building consultant and other special services. Each division should be in charge of a director with all staff members maintaining contact with the Superintendent through their respective division.



- a. Perhaps the greatest need is for the leadership which could be provided by a director of curriculum. The responsibilities of this office would include the over-all coordination and leadership functions in the areas of supervision and curriculum (instruction) involving all grade levels and all subject matter areas.
- b. A building consultant should be added to the staff of the Department of Public Instruction whose primary duties would be to advise local school districts as to plans and specifications for new buildings. It could be possible to provide standardized plans to effect substantial savings in school construction. Thorough studies of space utilization by school trustees, administrators, and architects are needed on all projects.

### **SECTION III**

#### ***Recommendations Requiring Long-Range Planning and Legislation for State Organization and Administration of Public Education in Montana***

1. Remove ex-officio members from the State Board of Education.
2. Provide for a State Board of Education of seven or nine lay members who would serve for long overlapping terms and could not succeed themselves.
3. Provide for some other means of administration and supervision of the custodial institutions now under the State Board of Education.
4. Provide for more help and strength to the State Office of Higher Education.
5. Make necessary changes in the selection of the State Superintendent of Public Instruction to keep that office out of politics, and away from any particular political party.
6. Remove from the code the many prescriptive details which are administrative in nature; and make the State Board of Education responsible for adopting policies, rules, regulations, and provisions so that the State Board of Education can authorize the State Superintendent of Public Instruction to organize and administer her department.
7. Authorize the State Board of Education upon recommendation of the Superintendent of Public Instruction to create such positions as are needed, set qualifications and salary scales, and establish the organization of the State Department.
8. Require the State Board of Education to report regularly to the legislature on the long-range plans, accomplishments and needs of the state-wide public education program. The State Superintendent of Public Instruction should be designated as the chief executive officer of the State Board of Education in all aspects of public elementary and secondary education with duties to be specified by the Board.

**PART II**  
**RECOMMENDATIONS FOR THE IMPROVEMENT**  
**OF TAXATION**  
**SECTION I —**

*Efficiency of Government Units*

1. The Taxation-Education Commission was instructed to “. . . provide adequate revenue for future needs of government and schools.” The Commission interprets this to mean adequate for necessary services provided in an efficient manner. *The Commission intends that all government revenue should be used only for these necessary and efficient governmental services. The development of efficiency and economy in government can be one of the most important factors in financing Montana.*
  
2. A complete study of the possible consolidation of units of State government was beyond the scope of the Commission’s resources. The need for research along this line was repeatedly brought before the Commission. Some possibilities for greater efficiency and economy through reorganization and consolidation was found in a pilot survey made by the research staff. Montana must make every effort to eliminate this unnecessary drain of revenue. *A complete and thorough study of all units of the State government for the purpose of effecting all possible reorganization and consolidation should be initiated and carried out at the earliest possible time. The efforts being made in this direction by some departments are to be commended and encouraged.*
  
3. The large land area, relatively low population, and transportation difficulties in past times have combined to give Montana a large number of units of government per unit of population. Many of these operate inefficiently. (a) *All cities, counties and school districts should immediately review their expenditures for current operation and capital outlay.* (b) *Some cities and counties could profitably study the more efficient management systems and put the one best fitted to their needs into use.* (c) *In some areas*

*consolidation of county, or city and county governments or offices should be studied in an effort to reduce the number of local governments and make them less costly and more efficient.*

4. There appears to be duplication of services in various state and federal, and state and local offices. *Every effort to isolate and eliminate this duplication should be made. Some detailed studies may be required.*
5. There is widespread dissatisfaction with the expenditures of certain State departments which now operate without specific and itemized legislative appropriation. Many of these operate with earmarked funds.  
*All revenue whether earmarked or general fund should be expended only after itemized line appropriation by the legislature.*
6. The percentage response from a Commission request to nearly 1,000 school, county, city, and state government administrators, for ideas on how they have made their operations more efficient was small but suggestions were generally sound. *More encouragement for installing sound management practices within units and sharing of efficient procedures among governmental units is desirable.* Shifts to IBM operations, addressographs, postage meters, folding machines, book-keeping machines, vertical file systems, and quantity purchases of supplies is to be encouraged where a net reduction in operating costs can be achieved.
7. Montana has never established any uniform personnel code. *The Legislature must accept and discharge the responsibility for creating a uniform personnel code throughout all state offices if any long term efficiency is to be achieved.*
8. Unauthorized use of state cars is still in evidence. (a) *The painting of State cars yellow has been expensive and only partially effective. A very noticeable transferable plate would serve the same purpose at a much lower cost.* (b) *As rapidly as possible a series of car pools for all State owned vehicles should be established at major centers of State government operation to reduce the overall number of cars required and curb unauthorized personal use.*

9. The State of Montana, and its many subdivisions, receives non-tax revenues from lands and investments. (a) *A complete review of the present use or non-use of any surplus or non-operating funds of the various departments should be made. Short term government investments would make these funds productive.*
- (b) *State and School land rentals for agricultural or mineral purposes should be brought up to current commercial levels and no use of these lands except that specified should be permitted.*
- (c) *Sealed bidding may increase revenue from oil and gas leasing.*
- (d) *The sale of State lands should be made only after very careful long range planning.*



**SECTION II —**  
**Property Taxation**

1. The basis of valid property taxation is uniform classification and assessment. All available records indicate that Montana has been receiving a very mediocre job of assessing. The present program of land classification and property appraisal authorized by the 1957 Legislature is aimed at bringing equalization to real property assessments. If this task is to be completed in the time allotted—and kept valid over any significant period of time—some safeguards need to be developed.

To assure that the three groups—the State Board of Equalization, County Assessors, and County Boards of Equalization—responsible for assessment know and carry out the Legislative intent the following are recommended: (a) Section 3, Chapter 191, Laws of Montana 1957 states that assessments are to be based on the “classifications and appraisals made.” This could be interpreted to mean some fractional assessment would be satisfactory as a policy for the state. This should not happen. The law (84-401 Revised Codes of Montana 1947) clearly requires “full cash value” assessment. The people of Montana have been deceived long enough. If we can say with any assurance that we are assessing at some known fraction of “full cash value” this *automatically* means we know what the “full cash value” is. *Adjustment in levels of property taxes should be achieved through millage levies to reach desired dollar goals.* (b) *Adequate time to adjust spending, bonding, and levying limits to full value assessments is available before the land reclassification and property appraisal is completed.* Adjustments for changes in the impact and burden of the property tax can also be made through judicious use of the classification law. (c) *The county assessors should be removed from the field of politics; appraising property is not a matter of political policy. Training schools, adequate equipment, reasonable compensation, periodic testing and some tenure should be made available to assessors and their depu-*

ties if assessment is to be properly carried out. (d) The Governor is responsible for seeing that the State Board of Equalization:

(1) provides the necessary leadership for the county officials and  
(2) maintains an adequate staff of qualified appraisers to assist counties in the present reclassification and appraisal program. This staff should aid the counties in keeping assessments proper and current over the years after the program is complete.

(e) If tangible personal property is to continue bearing a share of the property tax, improved methods of listing and valuing it will have to be developed. (f) Assessment of intangible personal property has never been satisfactory on the state or local level. This form of wealth can more properly be reached through special income taxation which should be considered as a part of a long range tax program for Montana.

2. All except two states derive some revenue from general or selective property taxes. In 1956 Nebraska derived 32.5% of its revenue from this source, the highest of any state. In the same year Montana ranked fourth with 9.0%, while a total of 21 states derived five or more percent from property taxation. The trend seems to be toward state governments leaving the property tax to local governments. When the present financial difficulties have been resolved and adequate alternative revenue from other taxation can be carefully developed, a long range plan for financing the state government from other than property taxation will appear to be in order.
3. The present method of paying property taxes on an annual or semiannual basis is a holdover from a primarily agrarian economy. Some provision for paying property taxes in a manner more closely allied to the preponderance of monthly or weekly incomes could be developed if property taxes are to be modernized. They appear less burdensome to those who pay them in monthly payments to escrow accounts.
4. A standard form for tax notices should be developed for all counties. It should show the type of property, assessed value, taxable



*value, and mill levy. It should also show the amount IN DOLLARS going to the various purposes for which the taxes are levied.*

5. *County treasurers must be instructed to enforce the present property tax delinquency and foreclosure laws in all counties. Some counties are relatively current while others have backlogs of ten or more years. The delinquent property taxes are reported by the Board of Equalization to be more than \$4,000,000.*
6. *The State Board of Equalization shall exercise its present power for checking "within" county assessments of all properties to see that they are properly assessed.*
7. *Limits on mill levies for specific purposes may be continued in Montana but the record of overall limits on property taxation does not serve as a recommendation of them.*
8. *The problem of taxing leasehold interests has not been well explored. Some concentrated research needs to be done before any conclusions can be drawn.*

**SECTION III —**  
***Income Taxation***

1. Montana chose a personal income tax in 1933—when many states turned to general sales taxation. Since that time it has spent twenty-five years improving it and adapting it to changing revenue needs. The Montana income tax has only begun to reach its low cost revenue producing potentialities under collecting methods currently in use. The effects of its present and any future use on income distribution can be predicted with a reasonable degree of success—certainly to a greater degree than from any other form of taxation.
  
2. Montana's personal income tax seems to be generally well administered. Cross-checking federal returns has reduced accounting expenses to some extent. One real danger exists if too much reliance is placed on federal audits: all federal returns do not receive complete audits and checks. (a) *Montana should accept its share of the responsibility for, and cost of, auditing income tax returns.* (b) *All income tax returns reporting adjusted gross incomes above some arbitrary figure should receive close scrutiny by competent auditors.* (c) *A random sample of returns from all different income groups should be carefully audited each year to check for discrepancies and serve as notice that no return is exempt from possible checking.* There is no known substitute for constant vigil if general taxpayer confidence is to be kept high and tax evasion at a minimum. It is not wise to practice false economy in checking returns. (d) *More realistic and graduated penalties and late fees will also improve taxpayer compliance.* At present there is no penalty for failure to file if a tax is not due. (e) *Income tax withholding should be extended to all forms of businesses, including farming.* Farm operations must keep records and file income tax estimates now. Some lower limit of \$150 per quarter per employee might be considered.

3. Efforts to determine the number of non-resident taxpayers who are not fulfilling their legally required contribution to the state income tax have largely been unfruitful. *County assessors should furnish the Board of Equalization with complete lists of out-of-state property owners for checking against income tax return lists.* This might reveal some evaders as some counties list at least 6% of all land owners as being from out-of-state.
4. Even after closing the loopholes and increasing governmental efficiency there is little doubt that the Legislature will have to raise more revenue in the coming biennium. The Commission has estimated that the Legislature will have to raise an additional \$25,000,000 for the coming biennium just to maintain the *present level* of government services. At least eight million dollars (\$8,000,000) of this would be a replacement of present property taxes that are levied to cover the state deficiency in the present Foundation Program. The Commission recognizes that there are two taxes which can be considered as possibilities for raising this needed revenue: an income tax or a general sales tax. The proposed income tax is explained in the following paragraphs. The comparison of the advantages and disadvantages between the sales tax and the proportional net income tax is found in Section IV, pages 21 and 22.

*The type of income tax recommended by the Commission, to raise the additional revenue needed to adequately finance government and schools, is a proportional income tax rate applied to the net income defined by subtracting the deductions allowed by the Revised Codes of Montana in either Section 84-4906 or 84-4908 from the State Adjusted Gross Income (Line 5 of 1957 Montana Individual Income Tax Return) defined in Section 84-4905 but before the exemptions allowed by Section 84-4910 (Line 6 of the 1957 Montana Individual Income Tax Return) are taken. The amount to be raised by this rate would become line 5a in future return forms. (a) The Commission suggests that the rate of this proportional tax should be 1 1/2%. Assuming that the annual total reported adjusted gross income will be between*

nine hundred million (\$900,000,000) and one billion (\$1,000,000,000) this rate would return between \$11,000,000 and \$12,000,000 per year. (b) *The present progressive rates can be applied to the new "progressively taxable income" (Line 7 now called "Taxable Income," on the 1957 Individual Income Tax Return) defined by subtracting the amount of tax determined under (a) above and the exemptions allowed by Section 84-4910.* (c) *The proportional rate suggested should not grow out of proportion with other rates in the structure.* (d) *The Legislature could well consider increasing the present upper limit on the progressively taxable income.* (e) *Every effort must be made to have non-residents earning money from operations in Montana pay their equitable share of the income tax.*

5. The Commission accepts the general policy of taxing corporate income. Strictly speaking, however Montana does not have a corporation income tax but a license tax computed upon net income (Section 84-1501). The Commission had an inadequate amount of resources to cover the field of corporation income taxation. The problems in corporation taxation which seem to be causing the most concern in Montana are the decline in revenue over time as the rates and number of corporations are increased, the wide fluctuation in annual returns to the state, and the inability to reach foreign corporations properly. *The State Board of Equalization should be instructed to utilize the resources necessary to prepare a fair and equitable corporation income tax law using their past records and experiences to close known loopholes.*

## **SECTION IV —**

### ***Sales Taxation***

Two distinct forms of sales taxation can be easily defined: (1) general and (2) selective. The former is used in some form in 33 states while the latter is common in all states.

1. While it is recognized that a general sales tax will raise large amounts of revenue, the proportional income tax rate recommended by the Commission will raise comparable sums without creating a new department of government or developing an undesirable regressive feature in the tax structure. A schematic comparison of how the burdens from the two alternatives are distributed in relation to income is shown in Figure 1. The undesirable feature of a general sales tax for low income groups is obvious. The regressivity for sales taxation in upper incomes is offset by progressive income tax rates and offers no special problem when considered in a family of taxes.

*The simultaneous imposition of a general sales tax in addition to the recommended proportional net income tax should not be permitted at any time in the foreseeable future.*

2. Montana is currently using a number of selective sales taxes. The present taxes on liquor, cigarettes and gasoline are notable examples. (a) The present selective sales tax on gasoline raises more state revenue than any other tax currently used at the State level. The Commission did not consider, however that the financing of highways was within the scope of their resources. (b) *Future specific sales taxes, except for those used to solve administrative and collection problems, are not to be recommended.* If Montana wishes to have special projects of statewide concern, where no specific benefits can be allotted they should become obligations of the General Fund. The necessary additional revenue designed to pay for the projects should accrue to the General Fund.

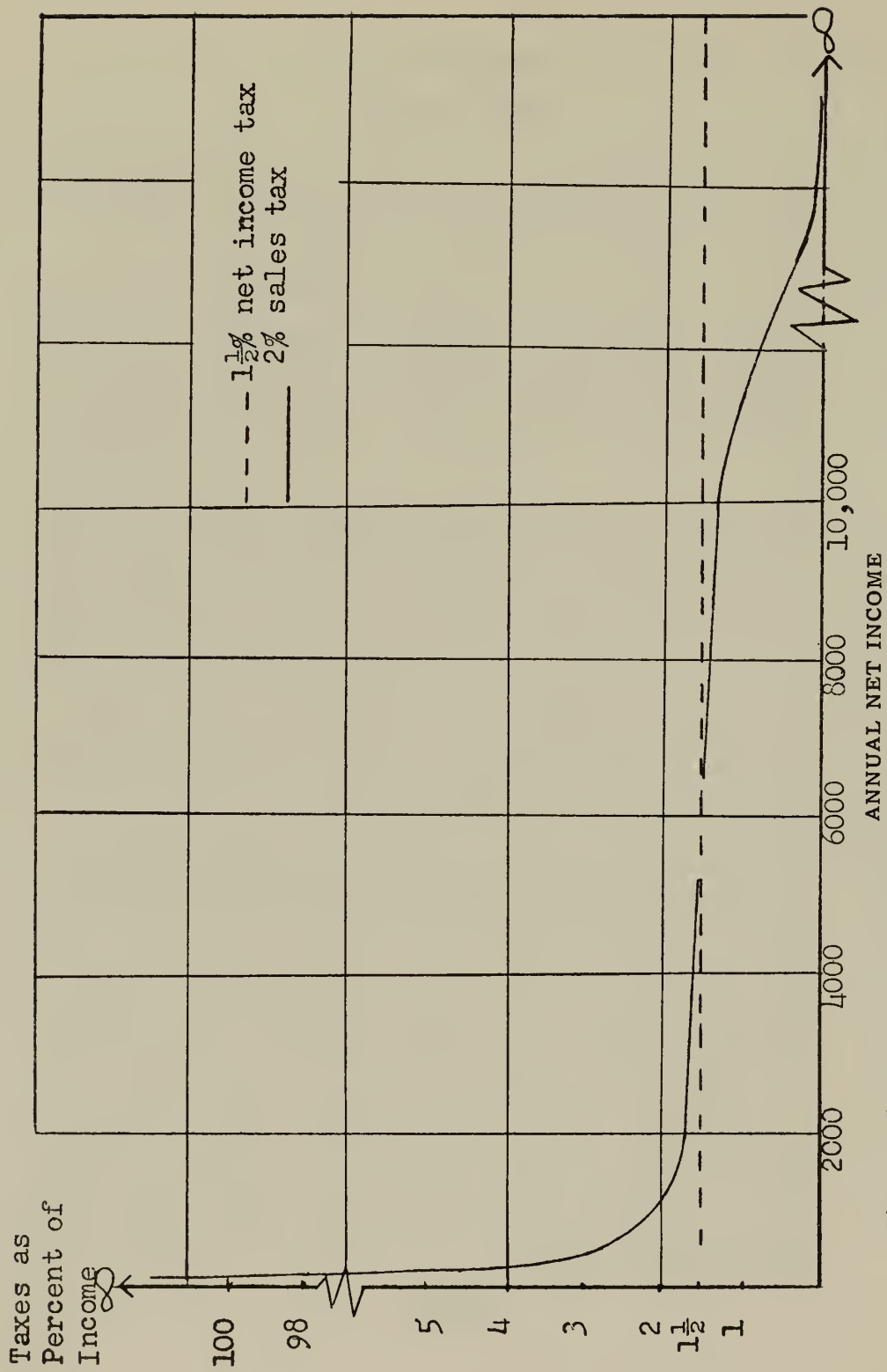


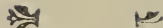
Figure 1. Comparison of the distribution of burden from a 2% general sales tax with a 1½% net income tax rate.



**SECTION V —**  
***Natural Resource Taxation***

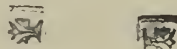
1. Montana's constitution very definitely shows the influence of the mining interests in the taxes that can be applied to mineral resources. Some states tax minerals in place. *A long range study of whether the present method of taxing net proceeds in lieu of a property tax on minerals in place meets the best interests of conservation and the revenue needs of Montana should be instituted by this Legislature.*
2. The oil and gas development companies maintain that the high and discriminatory taxes on this industry are impeding the development of these resources in Montana. More information will have to be found before their statement can be verified or refuted.
3. The taxation of timber has been on an *ad valorem* basis west of the continental divide for a half century or more while maturing stands east of the divide have only been recognized for their large commercial value in the past 8 or 10 years. It seems unjust, irrespective of the low property taxes generally placed on timber lands west of the divide, to now impose a severance tax on both—and quite impractical to impose it only on timber east of the divide. *The best alternative and most reasonable solution for timber taxation seems to lie in getting it properly assessed through the present classification and appraisal program now underway. A property tax rate based on this appraisal, that will not discourage conservation of the timber resource, should be developed while the classification and appraisal program is being completed.*
4. In addition to the specific items mentioned above, a detailed study of all natural resource taxes should be instituted.





It should be clearly understood that problems in taxation and education have existed through all the ages of known history. There is no indication that at any time in the foreseeable future permanent or complete solutions to any or all of these problems will be developed to the satisfaction of everyone.

The recommendations contained in this report are some of the forward steps in improving, modernizing, and simplifying the taxation and education systems in the State of Montana. Some of these recommendations explicitly point out the need for additional research in particular areas. The Commission recognizes that there are other problem areas that exist today—still others that will develop. A search for the steps to solve these current and future problems will also need to be made.



**APPENDIX**  
**Summary of Commission Finance**  
**as of November 26, 1958**

APPROPRIATION .....	\$ 35,000.00
Commission Traveling Expense .....	7,763.64
Office Traveling Expense .....	361.99
Salaries .....	13,708.94
Employer's Contribution .....	672.01
Data Procurement (Includes Peabody Survey) .....	6,558.82
Office Supplies .....	1,556.24
Total Claims to Date .....	30,621.64
Balance .....	\$ 4,378.36

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This Report is Available Through the Office of the Taxation-Education Commission,  
Box 140, Capitol Station, Helena, Montana









